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Supreme Court of the United States

October Term, 1976

No. 76-125

AMERICAN ELECTRO-COATINGS, INC.,
Petitioner,

vs.

RANSBURG CORPORATION, ELECTRO PAINTERS, INCORPORATED, GF BUSINESS EQUIPMENT, INC., THE GENERAL ELECTRIC COMPANY, and PARKWOOD LAMINATES, INC.,
Respondents.

PETITION FOR WRIT OF CERTIORARI
To the United States Court of Appeals
For the Sixth Circuit

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vs.

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Respondents.

PETITION FOR WRIT OF CERTIORARI
To the United States Court of Appeals
For the Sixth Circuit

American Electro-Coatings, Inc., prays that a Writ of Certiorari issue to review the orders of the United States Court of Appeals for the Sixth Circuit filed in connection with the dismissal of an interlocutory appeal from the United States District Court for the Northern District of Ohio.

OPINIONS BELOW

There are no published reports as yet of the decisions of the United States Court of Appeals for the Sixth Circuit; all are in the form of orders for which review is sought and are reproduced in chronological order in Ap-

pendix A. The decisions of the United States District Court denying interlocutory injunctive relief are likewise unreported; such decisions and pertinent portions of a preceding pre-trial order are reproduced in chronological order in Appendix B.

JURISDICTION

The judgment (order of dismissal) of the Court of Appeals was filed April 9, 1976 (A3-A4). A timely petition for rehearing was filed; it was denied May 4, 1976 (A5). This petition is, therefore, timely; 28 U.S.C. 2101(c). The Court of Appeals ordered on May 27, 1976, that a stay of its mandate to its district court below be conditioned upon the posting of a $50,000 bond by your petitioner (hereafter "American"); on June 27, 1976, the Court of Appeals denied American's motion to post other security (A7).

The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED

1. Where an agreement, constituting a license to use patented machinery needed for performing a thereby also licensed patented process, reserves to the licensor the legal title to such machinery, is not the licensee entitled to interlocutory injunctive relief from provisions for the payment of fees and repossession of such licensed machinery for default of such payments during the pendency of a suit in which the licensee (i) challenges the enforceability of the licensed patents and, under the anti-trust laws, (ii) challenges the legality of other provisions of such an agree-

ment and (iii) seeks relief from alleged unlawful conspiracies and anti-competitive practices of the licensor and others?

2. Does not the public policy and Congressional intent exemplified by the treble damage provision of the anti-trust laws (15 U.S.C. 15) reinforce and complement, rather than vitiate, the public policy with respect to patent licenses, as enunciated in *Lear*?[1]

3. Is not a United States court of appeals statutorily vested with jurisdiction to entertain an interlocutory appeal from the denial of injunctive relief (as summarized in question 1 above) when the notice of appeal has been timely filed under the Federal Rules of Appellate Procedure from a modified district court order pursuant to a motion timely filed under the Federal Rules of Civil Procedure?

4. Is it not an abuse of discretion for United States courts of appeals to increase the muzzling of a licensee (as summarized in question 1 above) by conditioning a stay of its mandate dismissing the interlocutory appeal (as summarized in question 3 above) during the filing and pendency of this petition, such condition being the filing of a substantial money bond?

STATUTES INVOLVED

This petition involves the statute vesting United States courts of appeal with jurisdiction to entertain interlocutory decisions, 28 U.S.C. 1292, particularly the following portion thereof:

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1. *Lear v. Adkins*, 395 U.S. 653, 670-71 (1969).

§ 1292. Interlocutory decisions

(a) The courts of appeals shall have jurisdiction of appeals from:

(1) Interlocutory orders of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme Court.

For the convenience of the Court, the applicable Federal Rules of Civil Procedure 6(a) and (e), 52(b), 54(a), and 59(e), and applicable portions of the Federal Rules of Appellate Procedure 4(a) and 41(b) are reproduced in Appendix C.

To the extent the dismissal of the appeal below on procedural grounds effects an affirmation of the merits of the district court's orders and calls for review thereof the statute involved is 15 U.S.C. 15:

§ 15. Suits by persons injured; amount of recovery

Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

STATEMENT OF THE CASE

(a) Parties and Their Businesses

Since American's inception in 1970, its business has consisted essentially of the "on-site" refinishing and repair of metal office furniture and fixtures. In this business, the key equipment involves a hand-held device ("spray gun") that sprays quick-drying paint particles carrying a high electrostatic charge supplied by a "power pack" connected to the gun; oppositely charged metal surfaces attract virtually all such spray. The resultant "like-new" repainting, leaving no brush marks, may be carried on (usually overnight or during weekends) in offices where the furniture to be refurbished is normally used. Completion of such refinishing usually requires replacement of the top materials of desks and tables; such materials are now most commonly plastic sheetings, often patterned to simulate specific woodgrains or leathers. Particularly in large, busy offices, the economy of "on-site" refinishing is not merely the savings with respect to the cost of new furniture or furniture reconditioned elsewhere; it is the minimal interruption of office routines and virtual elimination of the transfers of the contents of desks and files, which can otherwise cause disturbances and prolonged confusion.

Respondent Ransburg Corporation (hereafter "Ransburg") is the manufacturer of electrostatic coating equipments, including the type used by American and types more widely used in other applications [as by the original manufacturers of many types of products having painted metal surfaces]. Ransburg's various patents covering the electrostatic spraying process and the equipment therefor, as outlined in the description of American's business, have been widely litigated, and concededly heretofore largely

without success, by manufacturers of coating equipments who competed directly with Ransburg.

The nominal respondent Electro Painters, Incorporated (hereafter "Electro Painters") and American compete directly. Electro Painters now operates nationwide and abroad and has, since prior to Ransburg's first licensing of American, been the largest of the many licensed by Ransburg to engage in the "on-site" refinishing business. American did, indeed, rapidly expand from a local to a nearly nationwide operation, but all others yet in business in the field have remained as local operations. During American's expansion, Electro Painters was acquired by Ransburg as a wholly-owned subsidiary.

The other nominal respondents took no part in the appeal below but (under Rule 54(b), F.R.C.P.) are continuing as active defendants in the district court: They are: (i) GF Business Equipment, Inc. (formerly The General Fireproofing Co., and hereafter referred to as "GF"), a major manufacturer of steel office furniture; it is alleged to have a sales agency relationship with Electro Painters for the "on-site" refinishing of office furniture. (ii) The General Electric Company (hereafter "GE") has a "Textolite" division which manufactures unpatented and uncopyrighted patterned plastic sheeting suitable for desk and table tops; certain of such patterns are sold to GF but not to others without GF's direction or consent. (iii) Parkwood Laminates, Inc., is a wholly-owned subsidiary of GE into which its Textolite division was internally integrated shortly before the filing of the complaint below.

(b) Pre-litigation Dealings of American and Ransburg

As the whole record will show, in the appealed May 28, 1975, memorandum and order of the district court be-

low, the "Factual Background" (A10-A15) therein omits or glosses over facts which are submitted as material to the questions here presented and the review which the court of appeals below failed to make. Concisely restating such facts:

As American's expanding business required additional electrostatic spray units (a power pack and one or more "guns"), Ransburg supplied them under additional printed "agreements" in which Ransburg represented itself as the owner of the applicable patents and inventions. All such agreements, including the initial 1970 agreement, are characterized in their paragraph 1 as a "License" and, except for the varying amounts of the "fees", are essentially paraphrases of each other having, in effect the following provisions: (i) Ransburg would supply at no extra charge parts which became "defective through ordinary wear and tear"; otherwise, maintenance and repair could be secured only by return to Ransburg in exchange for a replacement at Ransburg's current price therefor.[2] (ii) A substantial initial fee[3] plus monthly payments, not less than a set minimum, at a rate per hour of use as shown by a meter on the equipment. (iii) Title to the equipment remained in

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2. The complaint below alleges that the effect of this provision was that the only parts which Ransburg would supply at no charge were those of which a supply was required to be on hand as readily switchable "spare parts" due to their consumption during normal use. Otherwise, in practice, Ransburg required that it perform all major maintenance and repair and be the sole source for American of staple articles of commerce needed for even minor maintenance and repair during actual use.

3. In the district court's May, 1975 decision (A10-A15) assuming the agreements are valid and putting off to a later stage (A12) an apportionment, between royalty payments and rental payments, of the use-related monthly fees called for under the agreements in suit, the court was silent not only as to these substantial initial fees in each agreement but also their effect as *de facto* purchase prices required by Ransburg before it would deliver equipment to American.

Further, the court was silent that payment of fees pending such apportionment would be into an *interest-bearing* escrow account, sought by American as injunctive relief.

Ransburg. (iv) In case of a breach uncured within 20 days after written notice, Ransburg was entitled to enter American's premises and repossess the equipment.

In June, 1974, Ransburg sent American a proposed printed amendment of the existing agreements providing fixed but substantially increased monthly fees for use with an option to buy at stated prices; if American did not execute the amendment, Ransburg assumed American wished to terminate its agreements. American duly rep''ed that the proposed purchase prices were unfair; stating other grievances, American also disputed Ransburg's assumption and elected a continuation under the unamended agreements now in suit as the lesser of evils.

Ransburg cashed American's continued monthly payments for use through December, 1974. In the meantime, however, Ransburg refused to deliver an order for "spare parts" American needed in order to continue in full operation and, through Ransburg's counsel, American was notified that it was in default and the equipment would be repossessed unless before January 15, 1975, American made an additional payment of $4,000 calculated as though American had accepted the amendment offered in June, 1974, and, thereafter, continued to operate as though the agreements in suit had been bilaterally amended.

(c) District Court Proceedings Below

On January 15, 1975, American filed its complaint in the United States District Court for the Northern District of Ohio. Count I charges violations of the anti-trust laws. As last amended, these charges include: (a) With respect to top materials for refinishing furniture, a charge of unlawful conspiracy, price discrimination and restraint of trade by Ransburg, Electro Painters, GF, GE, and Park-

wood in violation of 15 U.S.C. §§ 1, 2, certain subsections of § 13, and § 14 (the last not charged against GE). (b) The unlawful acquisition of Electro Painters by Ransburg in violation of 15 U.S.C. 18. (c) The violation by Ransburg of 15 U.S.C. § 14 and various subsections of § 13 by its control of the maintenance and repair of licensed equipment and the unpatented goods used therefor. Count II seeks (a) a declaratory judgment of non-infringement, invalidity, and unenforceability[4] of the Ransburg patents claimed to be licensed by the agreements in suit and (b) a declaratory judgment that, if the agreements in suit are valid, American did not breach them nor is bound to Ransburg's attempted unilateral amendment of them. Count III is a claim of unfair competition by Ransburg. The prayers for injunctive relief include a prayer for a mandatory order establishing an interest-bearing escrow account into which American might pay the fees called for under the agreements in suit while the rights and obligations of the parties with respect to each other are being adjudicated. Jurisdiction of the district court below was invoked under 28 U.S.C. 1337 [anti-trust law violation]; 2201 and 2202 [declaratory judgment]; and 1338(b) [unfair competition related to issues under the patent laws].

After a joint answer and counterclaims by Ransburg and Electro Painters and American's formal motion to establish an escrow account, on February 24, 1975, the dis-

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4. "Unenforceability" is used in this challenge to Ransburg's patents in a sense distinct from the challenges to validity and infringement. That is, regardless of validity or infringement, a Federal court may not aid a patentee who has used his patent to extend its monopoly beyond the scope of its claims, as this Court has repeatedly maintained ever since its decisions in 1941 in *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, and *B. B. Chemical Co. v. Ellis, et al.*, 314 U.S. 495. Perhaps as a sort of shorthand, the district court below lumped American's three distinct grounds as merely "challenging the validity of certain [Ransburg] patents" (A10).

trict court entered a pre-trial order dealing largely with discovery and other matters but providing that Ransburg should continue to supply "spare parts" and fill American's December 10, 1974, order, for which American should pay at Ransburg's current prices. Decision on American's motion for an escrow account was postponed (A8). Ransburg fulfilled the spare parts order and an order for a replacement gun, so that American could continue to function fully; American deposited a check for the total of Ransburg's invoice price with the clerk of the district court for disbursement according to the still expected escrow.

On May 28, 1975, the district court entered and served by mail a memorandum and order reproduced in Appendix B (A10-A15). On June 10, 1975, American's motion for reconsideration (served June 9, 1975) was entered; with respect to the court's direction for "spare parts", American pointed out that such "spare parts" were conceded by Ransburg's answer to be those which Ransburg had furnished without extra charge under the agreements in suit.

On July 1, 1975, the district court's order (signed June 30, 1975) was entered. It is reproduced in Appendix B (A16-A17) and modifies the May 28 order with respect to "spare parts" but otherwise affirms the denial of American's motion for an injunction establishing an interest-bearing escrow account.

On July 24, 1975, American filed its notice of appeal to the United States Court of Appeals from the interlocutory district court order of May 28 as modified on June 30, 1975.

(d) Proceedings Before the Court of Appeals

Immediately after the docketing of the interlocutory appeal below, Ransburg moved to dismiss it and American

duly opposed, resulting in the order of December 4, 1975, deferring decision until briefing and a hearing on the merits. See Appendix A (A1-A2). The brief and oral arguments on April 5, 1976, resulted in the order of dismissal entered April 9, 1976 (A3-A4).[5] American's petition for rehearing, filed April 22, 1976, was denied May 4, 1976 (A5).

American's subsequent motion for stay of the mandate of the court of appeals was opposed by Ransburg, which alternatively sought a bond of $250,000 as security for the licensed equipment in American's custody. American replied that such an amount was devoid of support in the record and represented Ransburg's further effort to muzzle American. On May 27, 1976, the court of appeals conditioned such stay upon American posting a bond for $50,000 with the district court's clerk (A6). In response, as "other security", American applied for leave to leave in the custody of the clerk and maintain in force an insurance policy, in excess of $50,000 and issued by a reputable company, which would cover any loss or damage to the equipment in question. The application for such modification or amplification was denied June 24, 1976 (A7). To avoid the muzzling effect of a hypothecation of American's assets for the money bond set by the court of appeals, American has been left with the single option of proceeding with this petition while the court of appeals' mandate is before the district court.

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5. American is advised by the clerk of the court of appeals that this April 9, 1976, entry constitutes the entirety of the court's opinion and judgment in the case and there is no other document constituting a formal judgment, as such.

REASONS FOR GRANTING THE WRIT

(A) Severe Limitation of Public Policy Relating to Patent Licensing and Anti-Trust Laws Involved and Clarification Is Needed.

American is an exemplification of a licensee with an economic incentive, i.e., to keep alive its once growing business, to challenge Ransburg's patents and Ransburg's abuses thereof in connection with its licensing policy and trade practices. According to *Lear, supra,* American should be "unmuzzled" by being relieved of an obligation to pay license fees while the contest goes on.[6]

Nothing in *Lear,* the decisions cited by the district court (A12-A14), or other decisions following *Lear* limits a licensee to be unmuzzled to one who pays his licensor only a "straight royalty" fee uncommingled with any other type of fee (as the district court concluded at A14-A15).

If the district court's position were sound, then the Federal patent policy of *Lear* would not merely be thereby unduly restricted, but future monopolists will be taught how to eviscerate it by combining their process patent licenses with purported leases of equipment required for the process, all in a single document calling for a combined fee—as the district court tacitly acknowledged (A14).

The irony of the district court's refusal of mandatory injunctive relief of American from eviction and repossession of the licensed equipment is not merely that American

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6. Manufacturers of coating equipment who heretofore unsuccessfully challenged Ransburg's patent also had an economic incentive, but if they were aware, as American is, of Ransburg's use of its patents to extend the monopolies thereof, contrary to *Morton Salt* and *B. B. Chemical, supra,* it is not apparent from any reported decision.

would remain fully muzzled as to the portion of the combined fee constituting patent royalties, as such. American also remains muzzled in its bona fide attacks under the anti-trust laws of both the American-Ransburg agreements and the alleged conspiracies of Ransburg and its wholly-owned subsidiary, Electro Painters, with still others to restrain trade in the not unsubstantial field of on-site refinishing of furniture and fixtures. Just as the effect of the public policy of *Lear* is to not discourage patentee licensees from challenging licensed patents on subject matters which should be in the public domain, manifestly the purpose and public policy of 15 U.S.C. 15 is to encourage the challenging of agreements, conspiracies, and practices in violation of the anti-trust laws by those who believe themselves victimized thereby. *Mechanical Contractors v. Christensen,* 352 F.2d 817, 821 (10th Cir., 1965), *cert. den.,* 384 U.S. 918. *Klor's Inc. v. Broadway-Hale Stores,* 255 F.2d 214, 217 (9th Cir., 1958), *rev'd on other grounds,* 357 U.S. 207.

Consequently, the policy of *Lear* is not exclusive to the unmuzzling of licensees who pay patent royalties only, but wholly consonant with the policy of the anti-trust laws of unmuzzling those who claim injury by violators thereof, especially when the violations are those associated with the licensor's practices.

The mandatory injunction establishing an escrow account, which the district court refused, could have provided only the minimum unmuzzling of American, in that American's fees payable under the agreements in suit, if either Ransburg's patents or its license agreements should be enforceable, American would not thereby be subsidizing Ransburg's defense of American's challenges. By refusing such an injunction, the District Court left American with no specific relief from not merely a muzzling during the suit below—but in jeopardy of an eviction and forfeiture of its business before the suit progressed to a stage

where the district court could apportion escrowable fees between patent royalties and chattel rentals (if any) and determined how such fees should be disbursed. It is submitted that not only should such thwarting of public policies be prevented, but a clarification of the relationship of the doctrine of *Lear* to the intent and purpose of the antitrust laws seems needed.

(B) The Court of Appeals Below Failed in Its Statutory Duty and Abused Its Discretion in the Light of Lear.

As a combined judgment and decision, the reasons given in the April 9, 1976, order of the court of appeals below (A3-A4) are unexplained and seem inexplicable. As shown at the outset of the preliminary order of December 4, 1975, American filed an interlocutory appeal under 28 U.S.C. 1292(a)(1). That statute does not exclude mandatory injunctions from those

> "(1) Interlocutory orders * * * modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, * * *"

as to which appellate jurisdiction is vested by 28 U.S.C. 1292(a). Accordingly, the conclusion of the court of appeals below in its April 9, 1976, order that it was

> "* * * without jurisdiction because no *final order* has been entered by the district court from which an appeal could be perfected * * *" (A3-A4, emphasis supplied)

appears to have no relevance to the interlocutory appeal before it.

Equally unexplained and inexplicable is the second and final reason given in that April 9, 1976, order:

> "* * * and because the purported notice of appeal was not timely filed." (A4).

The full record will confirm the assertion in the foregoing statement of this case that American's notice of interlocutory appeal was filed July 24, 1975 (and thus within the 30 days provided in the first paragraph of Rule 4(a), F.R.A.P.). It was an interlocutory appeal only from the district court's orders of June 30, 1975 (entered July 1) and of May 28, 1975, whereby the district court had refused the mandatory injunctive relief of establishing an escrow account that would permit American to pursue the controversy with a degree of unmuzzling. Since the order entered July 1, 1975, amended pursuant to a motion for reconsideration, the May 28, 1975, refusal, the interlocutory appeal ran to both orders under the second paragraph of Rule 4(a), F.R.A.P. If—as it does not state one way or another—the court of appeals was reaching back into the record in the district court for the timeliness of American's motion for reconsideration of the district court's May 28, 1975, order, that motion concededly did not specify, in view of the first sentence of Rule 54(a), F.R.C.P., whether it was filed under Rule 52(b) or 59(e), F.R.C.P., but the full record will confirm that, under either of the rules, American's motion in the district court was timely under Rules 6(a) and (e), F.R.C.P., as the district court manifestly recognized by amending its May 28, 1975, order in part.

Being statutorily vested with jurisdiction, it is respectfully submitted that it was the court of appeals' duty to exercise it and adjudge the merits of American's interlocutory appeal after submission of the briefs and oral arguments addressed thereto.

Clearly, any stay of a court of appeals' mandate under Rule 41(b), F.R.A.P., may be conditioned upon posting of "a bond or other security". But if there was before the appellate court below no interlocutory order having the force and effect of a mandatory injunction requiring action

by American pursuant to the appealed order of May 28 and July 1, 1975, why would any bond or other security be required for a stay pending the filing of this petition? It is respectfully submitted that the $50,000 bond set as a condition for such a stay seems both arbitrary and tending to muzzle American contrary to *Lear*.

CONCLUSION

For all of the foregoing reasons, this petition for certiorari should be granted.

Respectfully submitted,

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APPENDIX A

Order of the Court of Appeals Postponing Decision Re Dismissal

(Filed December 4, 1975)

No. 75-2078

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

AMERICAN ELECTRO-COATING, INC.,
Plaintiff-Appellant,

v.

RANSBURG CORPORATION, *et al.*,
Defendants-Appellees.

ORDER

Before: WEICK, LIVELY and ENGEL, *Circuit Judges.*

The plaintiff-appellant filed a notice of appeal pursuant to 28 U.S.C. § 1292(a)(1) from a series of preliminary orders entered in the district court. The defendants-appellees have filed a motion to dismiss pursuant to Rule 8, Rules of the Sixth Circuit on the ground that this court lacks jurisdiction to hear appeals from the orders specified in the notice of appeal. The contention of the defendants-appellees is based on two premises: (a) That the orders appealed from are not interlocutory orders "granting, continuing, modifying, refusing or dissolving injunctions . . ." [28 U.S.C. § 1291(a)(1)]; and (b) That the notice of ap-

peal was not timely. In response plaintiff-appellant contends that its notice of appeal was timely filed and that the effect of the orders of the district court was to deny injunctive relief sought in its complaint and to mandatorily order it to make certain payments to defendants-appellees.

Upon consideration of the entire record now before the court it is concluded that this appeal presents substantial questions with respect to the jurisdiction of the court and that these questions should be decided after full briefing and oral argument.

It is therefore ORDERED that the motion to dismiss is passed for consideration by the panel of the court to which this interlocutory appeal is assigned.

Entered by Order of the Court

/s/ JOHN P. HEHMAN

Clerk

Order of Dismissal of the Court of Appeals

(Filed April 9, 1976)

No. 75-2078

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

AMERICAN ELECTRO-COATINGS, INC.,
Plaintiff-Appellant,

v.

RANSBURG CORPORATION, ELECTRO PAINTERS, INC., GF BUSINESS EQUIPMENT, INC. and THE GENERAL ELECTRIC COMPANY,
Defendants-Appellees.

ORDER

Before: WEICK and PECK, *Circuit Judges,* and CECIL, *Senior Circuit Judge.*

This matter has been submitted under a motion to dismiss the appeal filed by defendant-appellee Ransburg Corporation and on the memoranda in support of and in opposition thereto, on the briefs of the parties on the merits of the appeal, and on the oral arguments of counsel for the parties on said motion. Under date of December 4, 1975, another panel of this Court ordered that "the motion to dismiss [should be] passed for consideration by the panel of the court to which this interlocutory appeal is assigned," and it is now concluded that this Court is without jurisdiction because no final order has been entered by the district court from which an appeal could be per-

fected and because the purported notice of appeal was not timely filed. Accordingly,

IT IS ORDERED that the motion to dismiss the appeal filed by defendant-appellee Ransburg Corporation should be and it is hereby granted, and it is further ORDERED that this appeal should be and it is hereby dismissed.

Entered by Order of the Court

/s/ JOHN P. HEHMAN
Clerk

Order of the Court of Appeals Denying Rehearing

(Filed May 4, 1976)

No. 75-2078

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

AMERICAN ELECTRO-COATINGS, INC.,
Plaintiff-Appellant,

v.

RANSBURG CORPORATION, *et al.*,
Defendants-Appellees.

ORDER

Before: WEICK and PECK, *Circuit Judges*, and CECIL, *Senior Circuit Judge.*

Upon consideration of the petition for rehearing filed herein by plaintiff-appellant, the court concludes that the issues raised therein were fully considered upon the original submission and decision of this case.

It is therefore ORDERED that the petition for rehearing be and it hereby is denied.

Entered by Order of the Court

/s/ JOHN P. HEHMAN
Clerk

Order of the Court of Appeals Re Stay of Mandate Requiring Posting of Bond

(Filed May 27, 1976)

No. 75-2078

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

AMERICAN ELECTRO-COATINGS, INC.,
Plaintiff-Appellant,

v.

RANSBURG CORPORATION, ELECTRO PAINTERS, INCORPORATED, GF BUSINESS EQUIPMENT, INC., AND THE GENERAL ELECTRIC COMPANY,
Defendants-Appellees.

ORDER

Upon consideration of the plaintiff-appellant's motion for stay of mandate and further considering the opposition thereto of the appellees,

IT IS ORDERED that the motion to stay the mandate be and it hereby is granted upon the condition that the plaintiff-appellant post a bond in a form satisfactory to the Clerk of the District Court in the amount of $50,000 within seven (7) calendar days from the file date of this order.

Entered by Order of the Court

/s/ JOHN P. HEHMAN
Clerk

Order of the Court of Appeals Denying Motion for Modification Etc. Re Posting of Bond

(Filed June 24, 1976)

No. 75-2078

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

AMERICAN ELECTRO-COATINGS, INC.,
Plaintiff-Appellant,

v.

RANSBURG CORPORATION, ELECTRO PAINTERS, INCORPORATED, GF BUSINESS EQUIPMENT INC., AND THE GENERAL ELECTRIC COMPANY,
Defendants-Appellees.

Before: WEICK and PECK, *Circuit Judges,* and CECIL, *Senior Circuit Judge.*

This matter having come on to be considered on the Application for Modification and/or Amplification of Order on Stay of Mandate Subject to Posting Bond, and the Court having concluded that the motion is not well taken denies same.

Entered by Order of the Court

/s/ JOHN P. HEHMAN
Clerk

APPENDIX B

Pre-Trial Order of the District Court

(Filed February 24, 1975)

No. C 75-42

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

AMERICAN ELECTRO-COATINGS, INC.,
Plaintiff,

v.

RANSBURG CORPORATION, *et al.*,
Defendants.

PRE-TRIAL ORDER

LAMBROS, *District Judge*:

The Court, based upon the pleadings and submissions of the parties to date, and the arguments, agreements and statements of counsel hereby enters the following pre-trial order:

* * * * *

8. During the pendency of this suit, for as long as plaintiff has any of Ransburg's equipment in its possession, custody or control, and so long as plaintiff continues to make monthly payments* for use of that equipment at the

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*The issue of the propriety of an escrow account in this case will be dealt with in a subsequent order.

rate plaintiff has been paying since August 1, 1974, Ransburg shall furnish to plaintiff, on plaintiff's order, subject to their availability, spare parts for such equipment, provided that plaintiff pays for such parts at Ransburg's current prices to owners of like equipment and provided that the order has been accompanied by a statement that the parts are needed to replace damaged or worn out parts in equipment owned by Ransburg which is in plaintiff's possession, custody or control or are needed to maintain a reasonable immediate supply inventory. Plaintiff's order shall take its proper turn in time sequence with other orders from other customers as they have been received. Ransburg has made available to plaintiff its most recent price list and shall furnish to plaintiff from time to time during the pendency of this suit any revisions thereof.

9. As to the December 10, 1975 [1974] spare parts order of plaintiff, the Court directs that this parts order be shipped immediately to plaintiff, and that plaintiff forward payment for those parts to Ransburg upon receipt of the parts. There has been no adequate basis demonstrated for treating this spare parts order differently than those orders to be made in the future.

* * * * *

12. This Pre-Trial Order renders moot plaintiff's application for a pre-trial order relating to spare parts, filed February 5, 1975.

IT IS SO ORDERED.

/s/ THOMAS D. LAMBROS
United States District Judge

Memorandum Opinion and Order of the District Court Denying Escrow Account

(Filed May 28, 1975)

No. C 75-42

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

AMERICAN ELECTRO-COATINGS, INC.,
Plaintiff,

v.

RANSBURG CORPORATION, *et al.*,
Defendants.

MEMORANDUM OPINION AND ORDER

LAMBROS, *District Judge*:

Plaintiff brings this action seeking to recover damages for alleged violations of federal antitrust laws and also challenging the validity of certain patents on which plaintiff has been granted licenses by defendant Ransburg. The plaintiff desires to establish an escrow account into which it can pay the patent royalties due Ransburg. Defendant Ransburg has opposed the motion. For reasons to be stated, the motion to establish an escrow account is denied.

I. FACTUAL BACKGROUND

Plaintiff is in the business of on-site paint spraying. The market is primarily in office furniture, and plaintiff has teams of painters operating nationally who will spray office furnishings in the office building without damage to contents or surroundings.

To conduct its business, plaintiff leased electrostatic coating devices developed and owned by Ransburg. There are apparently one or more patents held by Ransburg which apply to the equipment and/or the process used by plaintiff, and it is in recognition of these patents that a royalty is charged. But the plaintiff also uses *equipment* owned by Ransburg, and in computing the royalty rate there is no differentiation between patent royalty and equipment rental. Moreover, pursuant to agreements between plaintiff and Ransburg (Complaint Exhibits A & B), certain parts and services are supplied to plaintiff at no charge, and presumably a portion of the monthly payment covers that cost.

Computation of the royalty under the agreements between plaintiff and Ransburg involved reporting of operating hours as recorded by meters on the equipment, with a specified hourly charge then multiplied by the hours of use to determine the monthly fee. Specified minimum monthly fees were included in the agreements. (The terms of the agreements vary; a different agreement apparently was drafted each time an additional unit or units of spraying equipment were ordered. These factors are not relevant to the decision herein, however.)

In June 1974, Ransburg determined that a flat monthly fee would be assessed users of its equipment. Those users not accepting the charge were to be terminated. (Complaint, Exhibit C). Plaintiff objected to the change and to the termination. Plaintiff contended that the old agreements continued in effect, unilateral changes by Ransburg not being possible. (Exhibit D). Although certain of the agreements were considered by Ransburg to have ended on August 1, 1974 (none were extended beyond December 31, 1974) plaintiff continued to make payments based on the old agreements, which payments Ransburg continued to

accept. In December, Ransburg retained local counsel and proceeded to make efforts to regain control of what it felt was equipment being unlawfully detained by plaintiff.

At the same time, plaintiff attempted to obtain replacement parts for the spraying equipment. Difficulties arose on this issue. The plaintiff ceased all payments to Ransburg and on January 15, 1975, this action was instituted.

That a patent licensee has the right to challenge the validity of the licensed patent and that the licensee can refuse to make royalty payments while contesting the validity of that patent is established. *Lear v. Adkins,* 395 U.S. 653 (1969); *Atlas-Chemical Industries, Inc. v. Moraine Products,* 509 F.2d 1 (6th Cir. 1974). The licensee is relieved of the obligation to pay royalties once it has repudiated the benefits of the license and thus exposed itself to legal actions by the licensor. *Kewanee Oil Co. v. Bicron Corp.,* 478 F.2d 1074 (6th Cir. 1973), *rev'd on other grounds,* 416 U.S. 470; *Bahamas Paper Co., Ltd. v. Imperial Packaging Corp.,* 58 F.R.D. 355 (S.D.N.Y. 1973).

In none of the above cases, however, was there involved a fee other than a straight royalty The difference is significant in that even the plaintiff admits that some amount is due defendant Ransburg for the retention and use of the equipment leased to plaintiff.

Neither side has indicated that the sums to be paid to Ransburg under the agreements are apportionable. Indeed, plaintiff states that a Solomonic intellect would be needed for such a task.[1]

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1. If plaintiff prevails on the merits, such a decision would apparently have to be made. But in that instance, the trier of fact would have been presented with the full array of relevant evidence, and the decision would be more accurately made.

The question becomes, assuming that plaintiff could establish an escrow fund for straight royalty payments, is the same result appropriate when the fee includes, in addition to the patent license, charges for rental of equipment and part replacement costs? Should the licensee have to keep paying royalties on a patent it challenges? On the other hand, should the owner of the equipment involved be deprived of income rightfully due it, assuming its patents or its conduct in connection therewith to be potentially unlawfully:

In *Lear, supra,* the Court found that freedom from liability for royalties was necessary to encourage challenges to invalid patents. Licensees were to be "unmuzzled," to be given a reward for attacking patents and establishing their invalidity. It was deemed better that a patentee should be deprived of patent royalties if the patent was invalid, the benefit to the public good being great:

> Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation. *Lear, supra,* at 670-71

In this instance, however, the patentee has a very definite property interest above and beyond the patents. Certainly the plaintiff could not contend that it would be

entitled to the equipment without an accounting as to the value of the parties' respective interests in the equipment. There are not mere "technical requirements of contract doctrine" involved here.

Plaintiff may have repudiated the benefits of the patent by virtue of its attack but it clearly has not attempted to repudiate the benefits accruing to it from the agreements previously entered into between it and Ransburg. Plaintiff wants to retain the equipment leased from Ransburg and to defer making payments to Ransburg for plaintiff's use of the equipment.

Under the facts of this case, the Court does not find that an escrow arrangement is proper. Concededly the decision is imperfect. It gives different treatment to those patentees who also distribute the equipment to be used in the practicing of their methods in that by combining rentals and royalties these persons may avoid the effect of *Lear, supra,* and its progeny.

Nonetheless, the matters thus far presented to the Court favor the denial of an escrow for royalties and rental fees.

The decision of the Court of Appeals for this Circuit in *Atlas Chemical Industries v. Moraine Products, supra,* gives some indirect support to the holding in the instant. In *Atlas,* the Court determined that once a licensee attacks patent validity, the royalty obligation ceases and upon successful conclusion of the case, the licensee may recover for royalties paid following the filing of the suit.

In so ruling, the Court resolved the precise effect of the *Troxel* cases,[2] noting that in *Troxel* the licensee was

2. *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (1972) and 489 F.2d 968 (1973), *cert. den.* 416 U.S. 939.

seeking to recover past royalties after a third party had established the invalidity of the patent under which the person was licensed. In *Atlas, supra,* the Court observed that:

> The basic error of the District Court is reflected in this statement: '*Troxel* permits the licensor to keep the royalties when they have been paid during the course of litigation.' 350 F.Supp. at 359. *Atlas, supra,* at 5.

Plaintiff also argues that its challenges to defendant's conduct based on the antitrust laws warrant establishment of an escrow account. The Court finds no merit in this contention. All the cases dealing with this issue have been patent cases in which the bases for the decision was *Lear, supra,* which in turn was premised entirely on federal patent policy.

As to the request by plaintiff to pay into an escrow account the sum of $1,437.82 invoiced by Ransburg for spare parts delivered after plaintiff's request, this motion, too, will be denied. The February 24 Order was clear as to plaintiff's obligation to pay Ransburg and any confusion should have been removed by this opinion.

CONCLUSION

The request for the establishment of an escrow account is denied. Plaintiff is directed to submit to Ransburg another check in the amount of $1,437.82, being the sum owed for spare parts delivered to plaintiff by Ransburg.

IT IS SO ORDERED.

/s/ THOMAS D. LAMBROS
United States District Judge

Order of the District Court Modifying May 28, 1975 Order in Part

(Filed July 1, 1975)

No. C 75-42

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

AMERICAN ELECTRO-COATINGS, INC.,
Plaintiff,

v.

RANSBURG CORPORATION, ELECTRO PAINTERS, INCORP., GF BUSINESS EQUIPMENT, INC., and THE GENERAL ELECTRIC CO.,
Defendants.

ORDER

LAMBROS, *District Judge*

Plaintiff has requested reconsideration of the Memorandum Opinion and Order of May 28, 1975, which denied plaintiff's motions to deposit certain funds in escrow accounts. Upon reconsideration the Court finds that in so far as the Order requires plaintiff to pay separately for parts normally provided to lessee's of Ransburg's equipment who are making the combined monthly royalty and rental payments, modification is warranted. To the extent that the sum of $1,437.82 deposited by plaintiff for spare parts ordered December 10, 1975 involved payment for spare parts normally provided at no charge by Ransburg under the license agreement, plaintiff may reduce its payment to Ransburg by that amount, provided it has made

all the monthly payments due Ransburg under plaintiff's licenses from that defendant. As to the request for modification of the denial of an escrow account into which the monthly payments to Ransburg could be made, upon reconsideration the previous decision is affirmed.

IT IS SO ORDERED.

/s/ THOMAS D. LAMBROS
United States District Judge

APPENDIX C

Federal Rules of Civil Procedure, Rule 6(a) and (e)

TIME

(a) Computation. In computing any period of time prescribed or allowed by these rules, by the local rules of any district court, by order of court, or by any applicable statute, the day of the act, event, or default from which the designated period of time begins to run shall not be included. The last day of the period so computed shall be included, unless it is a Saturday, a Sunday, or a legal holiday, in which event the period runs until the end of the next day which is not a Saturday, a Sunday, or a legal holiday. When the period of time prescribed or allowed is less than 7 days, intermediate Saturdays, Sundays, and legal holidays shall be excluded in the computation. As used in this rule and in Rule 77(c), "legal holiday" includes New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, Christmas Day, and any other day appointed as a holiday by the President or the Congress of the United States, or by the state in which the district court is held.

* * * * *

(e) Additional Time After Service by Mail. Whenever a party has the right or is required to do some act or take some proceedings within a prescribed period after the service of a notice or other paper upon him and the notice or paper is served upon him by mail, 3 days shall be added to the prescribed period.

Federal Rules of Civil Procedure, Rule 52(b)

FINDINGS BY THE COURT

* * * * *

(b) Amendment. Upon motion of a party made not later than 10 days after entry of judgment the court may amend its findings or make additional findings and may amend the judgment accordingly. The motion may be made with a motion for a new trial pursuant to Rule 59. When findings of fact are made in actions tried by the court without a jury, the question of the sufficiency of the evidence to support the findings may thereafter be raised whether or not the party raising the question has made in the district court an objection to such findings or has made a motion to amend them or a motion for judgment.

Federal Rules of Civil Procedure, Rule 54(a)

JUDGMENTS; COSTS

(a) Definition; Form. "Judgment" as used in these rules includes a decree and any order from which an appeal lies. A judgment shall not contain a recital of pleadings, the report of a master, or the record of prior proceedings.

Federal Rules of Civil Procedure, Rule 59(e)

NEW TRIALS; AMENDMENTS OF JUDGMENTS

* * * * *

(e) Motion to Alter or Amend a Judgment. A motion to alter or amend the judgment shall be served not later than 10 days after entry of the judgment.

Federal Rules of Appellate Procedure, Rule 4(a)

APPEAL AS OF RIGHT—WHEN TAKEN

(a) Appeals in Civil Cases. In a civil case (including a civil action which involves an admiralty or maritime claim and a proceeding in bankruptcy or a controversy arising therein) in which an appeal is permitted by law as of right from a district court to a court of appeals the notice of appeal required by Rule 3 shall be filed with the clerk of the district court within 30 days of the date of the entry of the judgment or order appealed from; but if the United States or an officer or agency thereof is a party, the notice of appeal may be filed by any party within 60 days of such entry. If a timely notice of appeal is filed by a party, any other party may file a notice of appeal within 14 days of the date on which the first notice of appeal was filed, or within the time otherwise prescribed by this subdivision, whichever period last expires.

The running of the time for filing a notice of appeal is terminated as to all parties by a timely motion filed in the district court by any party pursuant to the Federal Rules of Civil Procedure hereafter enumerated in this sentence, and the full time for appeal fixed by this subdivision commences to run and is to be computed from the

entry of any of the following orders made upon a timely motion under such rules: (1) granting or denying a motion for judgment under Rule 50(b); (2) granting or denying a motion under Rule 52(b) to amend or make additional findings of fact, whether or not an alteration of the judgment would be required if the motion is granted; (3) granting or denying a motion under Rule 59 to alter or amend the judgment; (4) denying a motion for a new trial under Rule 59. A judgment or order is entered within the meaning of this subdivision when it is entered in the civil docket.

* * * * *

Federal Rules of Appellate Procedure, Rule 41(b)

ISSUANCE OF MANDATE; STAY OF MANDATE

* * * * *

(b) Stay of Mandate Pending Application for Certiorari. A stay of the mandate pending application to the Supreme Court for a writ of certiorari may be granted upon motion, reasonable notice of which shall be given to all parties. The stay shall not exceed 30 days unless the period is extended for cause shown. If during the period of the stay there is filed with the clerk of the court of appeals a notice from the clerk of the Supreme Court that the party who has obtained the stay has filed a petition for the writ in that court, the stay shall continue until final disposition by the Supreme Court. Upon the filing of a copy of an order of the Supreme Court denying the petition for writ of certiorari the mandate shall issue immediately. A bond or other security may be required as a condition to the grant or continuance of a stay of the mandate.